

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KEN-GAS OF	)	
KENTUCKY FOR APPROVAL TO CONSTRUCT	)	CASE NO. 10346
AND FINANCE A GAS SYSTEM TO SERVE	)	
THE CITY OF HYDEN, KENTUCKY	)	

O R D E R

On August 11, 1988, Ken-Gas of Kentucky, Inc. ("Ken-Gas") filed an application with the Commission requesting a Certificate of Public Convenience and Necessity for the construction of a natural gas distribution system in the city of Hyden, Kentucky.

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that in order to properly consider the application, more information is needed.

IT IS THEREFORE ORDERED that Ken-Gas shall file an original and six copies of the following information with this Commission with a copy to all parties of record. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided should a public hearing be required. When applicable, the information requested herein is due no later than 14 days from the date of this Order. If the information cannot be provided by that date, submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Copies of the contractors' bids received.
2. Name, address, and the qualifications of the contractor ("Contractor") selected to implement the construction of the natural gas distribution system in Hyden, Kentucky.
3. A copy of the contract(s) between Contractor and Ken-Gas.
4. Construction schedule showing time schedule for all stages of the work.
5. A copy of authorization from the city of Hyden and/or highway engineer and a detailed design with drawings of all pipeline crossings to Kentucky River, bridges, roads, and creeks.
6. A copy of the contract between Ken-Gas and the natural gas supplier. The contract should include but is not limited to:
  - a. Term of the contract.
  - b. Price agreement.
  - c. Operating conditions.
  - d. Point of delivery and receiving station facility.
  - e. Odorization facility.
7. Ken-Gas's letter filed on March 21, 1989 stated that Kentucky West Virginia Gas Company is ready and able to provide 30,000 Mcf per year of natural gas to the city of Hyden. Ken-Gas estimated a higher consumption rate of 35,000 Mcf in 1989-1990 and higher consumption in subsequent years. Explain how Ken-Gas will supplement the shortage in natural gas if the estimates are correct.
8. Adjustments related to any changes in facts or information filed with the Commission since August 1988.

9. With reference to the specifications and contract documents filed on September 27, 1988, provide the following information:

a. Is the work to be performed by the Contractor for the distribution system only?

b. Is the installation of the transmission pipeline performed by a separate contract?

c. If a steel pipeline is selected for the transmission line, explain the technical and financial advantages of choosing steel over plastic.

d. The installation of the customers' service lines, fittings, regulators, and meters is included in the job description of the contract. Is Ken-Gas proposing to own and operate the customers' service lines?

e. In response to the previous question, explain whether the cost of this portion will be reimbursed by the customers or whether Ken-Gas will file for a deviation from 807 KAR 5:022, Section 9(17)(a)2.

f. Explain the procedure of tapping the service line to the main line. Will a positive shut-off device be installed at the tapping tee, or will a curb valve and curb box be used?

10. Does Ken-Gas plan to charge a tap-on fee for new customers in the Hyden system? If so, how much, and what is the basis for determining how much the fee will be?

11. How did Ken-Gas arrive at the number of customers, both residential and commercial, for each projected year of operation for the Hyden system?

12. How did Ken-Gas arrive at the projected sales volumes for both residential and commercial customers?

13. On the first page of Exhibit 2, the third, fourth, and fifth years' sales projections show 36,500 Mcf, 38,500 Mcf, and 42,000 Mcf, respectively. The third page of Exhibit 2 shows projected Mcf sales for the third, fourth, and fifth years of 38,500, 41,500, and 43,000, respectively. Which is correct?

14. Ken-Gas has requested approximately the same rates for the Hyden system that were granted for the Burkesville system. The rates for the Burkesville system are \$7.024 per Mcf for residential customers and \$6.024 for commercial and industrial customers. Ken-Gas, in this filing, has proposed a rate of \$7.00 per Mcf for both residential and commercial customers. Does Ken-Gas intend to use the \$7.00 per Mcf rate for residential and commercial customers for the Hyden system?

15. Provide a complete description of the total operations of Ken-Gas.

16. Provide the 1988 financial statements of Ken-Gas (include all operations).

17. Provide a list of all service areas presently being served by Ken-Gas and any areas that are currently being studied or planned to be served by Ken-Gas.

18. Explain how Ken-Gas plans to allocate joint costs between the various service areas (i.e., Burkesville and Hyden) and any other affiliated or related companies.

19. a. By what date does Ken-Gas anticipate that it will require office space?

b. Does Ken-Gas plan to rent any other property for its gas operations? If so, provide costs and expected date of rental.

c. Provide documentation regarding the anticipated \$300 per month rent.

20. Does Ken-Gas of Hyden plan to compensate the Albany office for any shared costs (i.e., overhead, transportation, salaries, office expense, etc.)?

21. What engineering costs have been included in outside services? Include costs and description of services performed.

22. a. The office expense has been stated at \$5,000. Does this include billing costs from the outside billing firm? Provide a complete breakdown of this expense.

b. Provide a copy of the written and/or details of the verbal agreement between Ken-Gas and the billing firm.

23. Describe the anticipated items of expense and associated cost for the estimated miscellaneous expense of \$15,000.

24. a. Explain where Ken-Gas has included engineering costs and consulting fees in its cost analysis.

b. Explain how Ken-Gas plans to recover these costs. Provide the revenue requirement impact.

25. What piece of equipment does Ken-Gas plan to use to install the distribution pipe?

26. Will Ken-Gas comply with the Uniform System of Accounts for Gas Companies that requires organization costs to be amortized over the life of the asset to which it applies?

27. a. Is Energy Search, Inc. acting as consultant on this case? If no, what is its role and the costs to Ken-Gas?

b. What is the role of Walton R. Haddix? What is the cost to Ken-Gas for his services?

28. a. Provide details of the applicable laws, regulations, etc., which provide for Ken-Gas to obtain tax-exempt status on the bonds.

b. Explain in detail any arrangements with municipal or other local government entities for the sale of the bonds. Provide copies of all documents related to this arrangement.

29. Will the bonds be offered to the public through a competitive bid, negotiated sale, or sold on a private placement basis at a negotiated price? Explain.

30. a. What is the coupon rate of the bonds?

b. What is the effective rate of the bonds?

c. Please itemize the costs of the investment banker on the bonds.

d. What additional expenses will Ken-Gas incur as a result of the sale of the bonds?

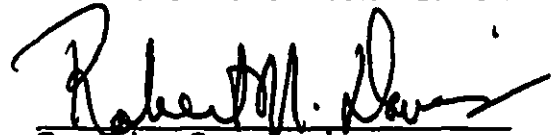
e. How does Ken-Gas propose to recover these costs? Provide the impact on Ken-Gas's revenue requirements.

31. Provide a copy of the actual or tentative documents associated with the sale of the bonds.

32. Is the investment firm guaranteeing the sale of the bonds?

Done at Frankfort, Kentucky, this 10th day of April, 1989.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

Executive Director